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Dallas Business Journal
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Friday, June 23, 1995

Aggressive OpTel brings HQ to Dallas
JESSE HALL; Staff writer of the Dallas Business Journal

OpTel Communications Inc., one of the biggest independent providers of cable-television and telephone services in the country, is relocating its corporate headquarters to Dallas from Los Angeles.

OpTel executives said the move will mean 100 new jobs for the city and an aggressive expansion of OpTel's Dallas-area operations.

The 4-year-old company, which uses microwave transmissions to provide phone and cable service to apartment complexes and hotels, is owned by Canadian cable giant Le Groupe Videotron.

To help implement a plan to more than double the U.S. markets it serves, OpTel recently assembled a new management team - a mix of cable veterans lured from Time Warner, Cablevision and Videotron, all of whom are moving to Dallas.

OpTel vice president of marketing and sales Harry Nicholls said the company will put its name on a West Mockingbird office building where it has leased two floors to house corporate executives and a new, 100-employee customer-service operation.

OpTel is buying ailing satellite cable companies in Dallas and other fast-growing markets, much the way its traditional, hard-wired cable counterparts grew into powerhouses, Nicholls said.

OpTel was founded by Todd Stern, who petitioned the Federal Communications Commission in 1991 and won the right to provide wireless cable service across cable-franchise borders.

Thus, OpTel is able to send cable signals to subscribers in

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Dallas, Carrollton and Irving from the rooftop of its Mockingbird location and compete with several traditional cable companies at once.

OpTel's niche is service to apartments and hotels, which are difficult for traditional cable firms to serve. By using 18-gigahertz microwave signals, the company can serve more subscribers than the older satellite cable companies it is gobbling up, and do it for less money, Nicholls said.

Whereas firms once would put a satellite dish next to a hotel or apartment complex and download cable at the site, OpTel downloads to a remote location from which it can beam the signal back out to a virtually unlimited number of subscribers, a technique prohibited before Stern successfully petitioned the FCC.

By reducing the amount of expensive downloading equipment it needs to operate, OpTel is able to beat the prices and channel selection offered by traditional cable companies, according to OpTel's corporate director of sales, Michael LaVallee.

In exchange for granting OpTel the right to act as alternative telephone and exclusive cable provider for its residents, apartment and hotel owners receive surveillance services, their own cable channel on which to advertise and communicate with their residents, and a cut of OpTel's profits, he said.

LaVallee said the firm already serves more than 120,000 apartment units and hotel rooms in Dallas, Austin, San Antonio and Houston, where it has a franchise with the FCC to provide its services over fiber-optic lines.

OpTel now is the largest independent cable company - one that operates primarily without franchises from the FCC - in Texas, California, Colorado and Arizona, he said.

Not surprisingly, OpTel isn't the only firm using the 18-gigahertz technology to capitalize on the FCC regulations allowing cross-franchise competition.

Andrew Kreig, vice president of the New York-based Wireless Cable Association, said firms large and small are rushing to cash in on

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the burgeoning industry.

"A number of wireless cable companies have the exact same strategy OpTel has," Kreig said. "The industry has seen 40% growth (in subscribers) in the past year."

Because microwave transmissions, like fiber-optic lines, can send voice, video and data, OpTel, which is positioned between interactive-services providers and hundreds of thousands of potential customers, also is "gatekeeper on the information superhighway," LaVallee said.

Videotron provides cable, telephone and interactive service through a fiber network in London, where the cable and telecommunications industries have been deregulated to allow cross-competition, and OpTel is positioning itself to capture the same market if such deregulations occur in this country, he said.

Beal Bank

files to raise

\$57 million

By DAVID WELCH

Staff writer of the Dallas Business Journal

Hoping to capitalize on its 20-fold growth over the last five years, the parent of Dallas-based Beal Bank is floating a \$57.5-million public debt offering.

Beal Financial Corp. filed with the U.S. Securities and Exchange Commission for an offering of senior notes due 2000; it plans to inject the capital raised into Beal Bank, which in turn would use the funds to buy more loans.

"The bank has capital in excess of the regulatory minimums," said David Farmer, president and CEO of the holding company and the bank. "The proceeds will be used to support growth of the bank."

Beal Bank has grown to \$488 million in assets as of March 31, up from \$24.7 million in 1990. The bank has grown, Farmer said, by buying loans from private financiers, the Federal Deposit Insurance Corp. and the Resolution Trust Corp., sometimes in blocks of \$30 million to \$50 million.

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Farmer said the bank likely will complete its deal at the end of July.

Beal Bank has grown its loan portfolio so quickly that loans exceed deposits by 54%. The bank borrows money from the Federal Home Loan Bank and makes or buys commercial and mortgage loans, taking its cut from the spread between interest rates. Loans bought from the RTC or FDIC typically originated from a failed institution.

Some of the loans are non-performing, but the majority are good loans that are discounted because RTC and FDIC are looking to unload them.

With Beal Bank's growth has come fat profit. Net income for the bank has increased to \$17.6 million for the nine months ended March 31 this year from \$179,000 in 1990.

The loan portfolio has grown, but so have deposits. The bank opened a second branch recently, located in Houston, and deposits have swelled from \$21.3 million in 1990 to \$308.9 million this year.

The downside of buying up large blocks of loans is that not all of them are in good working order. Beal Bank has 7.9% of its assets in non-performing loans. Most banks are under 2% in that category.

But Farmer said most of the loans in the non-performing category are being paid on regularly, but have reached maturity without being renewed.

Often commercial loans will have a 20-year term, but reach maturity in five years. At that point the lender renegotiates the loan and may renew it. The FDIC and RTC seldom renew a matured loan if they plan to sell it, putting such loans in the non-performing category.

Still, a significant amount of those non-performing loans are past 90 days due, Farmer said.

"There is a large number of those loans that are truly non-performing loans," Farmer said. "In the majority of cases, you either negotiate with the borrower or foreclose on the property and sell it."

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Despite its non-performing loans, Beal Bank has just \$3.6 million in foreclosed real estate, which is well under 1% of total assets.

The other downside of fast growth is debt. Total borrowings have risen to \$130.6 million from \$118,000 in 1992.

When the new debt issue is complete, Beal Bank will be looking to buy more loans. Farmer said the senior notes will have a 5-year maturity, but an interest rate has not been determined yet.

"I'd like to see the lowest rate possible," Farmer said, "but the markets have a way of determining that on their own."

Bill Strunk, banking analyst and partner of Barrett Strunk and Associates in Houston, said banks often borrow from the Federal Home Loan Bank or tap other financing vehicles to get more lending power.

But banks can overextend themselves, according to Strunk, who said other savings banks have borrowed heavily, making numerous loans. When some of those loans turn up delinquent or in default, a bank has problems.

Strunk said Beal Bank is making money, however. Its return on average assets and return on average equity, 5.91% and 65.13% respectively, far outdistance other banks of its approximate size.

Industry averages for banks in Beal's peer group are 2.21% for return on average assets and 24.49% return on average equity.

---- INDEX REFERENCES ----

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Austin American-Statesman

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Sunday, June 18, 1995

Renters are focus of new phone fight; Several local - service companies battle Southwestern Bell for apartment business, and some tenants suffer
Kim Tyson

A new billboard on FM 1325 north of Austin testifies to the battle being waged to win the business of Austin apartment renters:

"Warning: Other Phone Services May Cause Severe Frustration. Apartment Residents Insist on the Original -- Southwestern Bell Telephone."

Southwestern Bell is facing competition to serve new apartment complexes in Austin and is fighting back with a new apartment sign-up service, as well as billboards warning tenants about potential problems.

While the billboard message may be competitive hyperbole, a few tenants have run into problems. One woman working in an office in her apartment says she lost out on a contract because she was unable to send data on deadline to an important client.

Nearly all new apartments built in the past two years in the Austin area are offering alternative phone and cable services.

Depending on which apartment complex a tenant chooses, phone service may be offered by MultiTechnology Services (MTS), GE ResCom, OpTel or Westcom, as an alternative to Southwestern Bell. A few complexes also have contracts with an alternative cable company instead of Austin CableVision.

The newcomers are claiming customers by offering developers attractive revenue-sharing contracts and free phone and cable wiring, which saves developers several hundred thousand dollars on large

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developments.

In return for signing 10- to 20-year contracts with the companies, apartment developers usually receive between 4 to 6 percent of the gross profit from the phone and cable operations.

Angelique Goodnough, senior vice president for Capstone Real Estate Services, a large Austin area apartment management company, said that while there are financial incentives, most developers are using alternative systems because they believe they have new technology that will benefit tenants.

"In all the cases I've been involved with they've been able to get a bundle of services at prices lower than Bell," she said.

To counter the competition, Southwestern Bell this year introduced SmartMoves, which allows tenants to apply for local and long-distance phone service as they sign their new leases. SmartMoves offers financial incentives for apartment owners that assist in Bell's program.

So far 17 existing apartment developments in Austin have joined SmartMoves, according to a Bell spokeswoman.

Ric Campo, president of Camden Property Trust, which owns six complexes in Austin, said the new systems have attractive rates, but if they don't function properly the unhappiness caused tenants would overshadow the advantages.

"The worst thing is to have the residents moving out complaining of lousy cable service or not being able to use the phone," Campo said.

Toni Moss, who rented an apartment in Caprock Canyon in Northwest Austin in December, said she lost a prime business customer because of periodic phone problems with the MTS phone system in her apartment. Moss said sometimes her phone's ring was delayed, confusing her callers. It also would disconnect and even carry voices of her neighbors while she was on the phone.

"All of these people calling long distance thought they hadn't reached my phone number so they gave up," Moss said.

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Moss said after six months of frustration she reached an out-of-court settlement with MTS over her claims about poor phone service. "I'd rather have the client back," she said. "Once the damage is done it's hard to recover.

"I want people to know, if you're looking into a place, verify that the phones work or the cable works and map out what your recourse is if your phones don't work," Moss said.

David Ward, in charge of Austin development for Dallas-based JPI of Texas, the largest apartment developer in the Austin area, said JPI offers OpTel as a choice over Southwestern Bell because it offers good rates for special calling features and long-distance service. He said OpTel also offers tenants a monitored security system.

"It's a real competitive advantage to us to be able to offer that level of additional service to our residents," Ward said.

Campo said Camden has been testing ICS as an alternative phone service at two of its apartment developments.

"There are many companies out there. We've probably been approached by 10 or 15 companies," he said.

Typically the alternative phone provider installs a PBX switch at the apartment complex and then contracts with Southwestern Bell for access to incoming and outgoing trunk lines. The company can also bypass Bell's system entirely, with microwave signals.

Under state Public Utility Commission regulations, alternative phone companies must provide residents access to Southwestern Bell.

The PBX switch allows the companies to offer services such as call waiting and voice mail that would have been offered through Bell's central office switch.

The alternative phone service company contracts with a long-distance telephone provider for bulk rate discounts on phone service. But the tenants often are limited to that provider, a limitation Southwestern Bell is happy to point out.

Some systems, like MTS, also offer cable television using

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satellite receiving dishes and microwave dishes to receive signals. Some apartment systems include a channel dedicated to activities at the community.

Larry Peel & Co., a longtime Austin apartment developer, hired Dallas-based MTS to provide telephone service at its Hardrock Canyon Apartments and uses MTS for telephone and cable TV at Caprock Canyon Apartments, both in Northwest Austin.

"Our contract with MTS was that they provide the lowest (phone) rate available," said Freda Anderson, director of marketing for Peel. "That means, if I were to sign up with AT&T or MCI or Sprint, MTS must provide a lower rate than I can obtain on my own.

"The biggest savings is in the long-distance rates. It's a good 20 percent," Anderson said.

Pat Mackey, executive vice president and chief financial officer of MTS, said the company serves eight apartment developments in the Austin area. It will serve two others that are under construction, making it the largest alternative provider. MTS, which was started in 1991, is now serving 115 apartment properties and has 20,000 telephone units and 28,000 cable units under contract in six cities.

"What you'll find is all the private telephone operators will be 10 to 15 percent below the local exchange carrier for dial tone and calling features," he said.

But Nancy Dodd, manager of Southwestern Bell's SmartMoves program in Austin, said some apartment brochures on the services inaccurately reflect what Southwestern Bell charges.

According to brochures at various complexes served by alternative phone and cable companies, basic service charges vary widely -- even when the companies quote Southwestern Bell's rates.

For example, OpTel's rate card at JPI's Jefferson at Walnut Creek showed it offered basic phone service for \$12.95 a month, which it said was a 7 percent savings over Southwestern Bell. But Dodd said Southwestern Bell's rate is \$12.85 a month for basic service and \$13.03 a month for touch-tone service.

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MTS brochures for Great Hills Village showed Southwestern Bell's basic service was \$16.65 compared to its charge of \$14.80. At Caprock Canyon, a different MTS brochure showed Southwestern Bell charging \$13.53 for basic service, compared to its charge of \$13.50.

Dodd said she's worried the rates being quoted are misleading tenants.

'I don't where they got these rates. That's what concerns me," Dodd said.

Apartment developers say they have encountered some problems with the private firms but attribute part of that to the private cable-phone business still being in its infancy.

'They're all new in the industry and they've all gone through some growing pains," Anderson said. 'We all had to suffer through that."

The first alternative phone company Peel contracted with for the Hardrock Canyon job folded before it wired the first apartment building.

'He pretty much wined and dined us and gave us all these other options that others weren't willing to give us," she said.

'Everybody wants to get into the business because there are big bucks in it, but it also requires big capital."

Paul Smolen, director of the City of Austin's Office of Cable and Regulatory Affairs, said he is glad to see the competition among providers, but tenants should look carefully at the services.

'I'd urge people to be more concerned about who provides the phone that allows them to call the doctor than worrying if they have snow on HBO," he said.

'If I were a prospective tenant I'd ask, what's my guarantee if my cable goes out? Do these people come as soon or sooner than the regular cable company? And what happens if my phone goes out?"

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COLOR PHOTOS, PHOTO;

Caption: Rebecca McEntee, Larry Murphy; Dwain Burrows, assistant superintendent of construction for the Hardrock Canyon apartments, shows some of the phone cable being installed at one of the complexes. The units use MTS for phone service.; Manager June Barnett of the Huntington Apartments displays the complex's private cable channel. Some telephone systems are offering such channels along with cable as part of their phone-service package.; Southwestern Bell Telephone is waging a war against other phone companies to offer service to apartment residents. The smaller companies offer developers at tractive revenue-sharing contracts in exchange for business, but some tenants are complaining about service problems in their complexes.

---- INDEX REFERENCES ----

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Units

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Technology: The Gateway to the Future

By Anthony e. Papa

EVEN THE MOST HARDENED technophobe would be hard-pressed to deny the omnipresence of technology today. In business, technology provides new ways, to communicate, render services, and develop and produce products.

At home, people are more connected than ever before. Whether for leisure or for professional use, technology delivers goods and services, information, and access at the touch of a button, in the comfort and privacy of the home.

Technology presents property owners and managers with unprecedented revenue opportunities. Property owners today have the opportunity to become the gatekeepers for many forms of communications, entertainment, goods and services that new technology will provide to residents.

Just as the world of technology is changing, the multihousing industry is also undergoing period of change.

Working within Business Cycles

Multifamily housing is a cyclical business. The current building cycle began in 1993 and continues to expand. Each cycle is driven by consumer demand and capital availability. Today's boom is capitalized primarily by REITs and pension fund investors.

The resurgence of REITs has created its own market trend: the appearance of large regional property owners. Well capitalized, this new

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breed of regional property owner is taking an aggressive position in the marketplace and developing holdings nationally, thereby becoming an even larger national owner.

Primarily developing desirable higherend properties, these large regional and national owners are buying property management companies. The resulting property-specific management companies create economies of scale, uniformity, branding potential, and quality of service controls not available to smaller property owners. The resulting consolidation of the management industry is creating increasing demand for nationwide services.

The sophisticated new breed of property owner/manager realizes that new upper -end properties must not just meet, but must surpass the spectrum of amenities available in today's single-family homes. He must be sensitive to the profile and demands of his marketplace and provide services that keep pace with that market.

Consolidation of a similar kind is also taking place in the private cable and telephone service industry. Marketplace demands have forced many small, under -capitalized regional cable operators, who cannot afford to maintain parity with new technology, to merge with larger regional and national systems. Furthermore, private national service providers are offering services designed specifically for the multifamily housing market. These services open the door to the future, as well as provide customized services available today.

The communications industry consolidation creates easy access to telecommunications and entertainment services for the national and large regional property management companies. Management companies can, with a single agreement, contract services for all of their properties with a national services company, rather than having to seek out services in each market.

The convergence of consolidated players on both the property and the service side present the potential for synergies that will play out in the field of technology.

According to a recent study by GISTICS Incorporated U.S. households spent \$11 million on interactive service in 1997. Estimated spending for 1999 is \$78 million. That's an average growth rate of 48 percent. Those same households spent \$394 million on cable TV and in-home entertainment

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that same year. The 1999 estimate is \$509 million. Annual growth rate: 5.26 percent. In 1993, 3.9 million people in the United States subscribed to on-line services. An estimated 34.6 million will subscribe by 1998. That's an annual average increase of 54.74 percent.

All of these numbers point to the rapid expansion of electronic services and the resulting revenue boom in the electronic future. The question for most remains: "What does the new technology mean for the multifamily housing industry, how does it work, and what is the economic benefit?"

Becoming a Technological Gatekeeper

Capturing a piece of that growing electronic services delivery market is where technology comes into play for property owners and managers.

The key to the future for the property owner is to become the gatekeeper for the myriad of electronic services provided to residents and those offered by local operators.

Both the technology and the regulatory environments exist to allow properties to provide services to residents that exceed those available in private residences.

This service delivery potential offers property owners a unique market position. It strengthens the property's appeal and provides competitiveness within the overall housing market. In-home electronic services are an investment-free property enhancement that will soon become the new standard in the marketplace.

Customized cable television and pay-per-view entertainment, local and long distance phone service with special features from voice mail to automatic wakeup, and electronic security monitoring are now being provided by industry -specific providers. Many are also offering paging and other telecommunications-related services.

Already, some companies are providing properties with interactive marketing techniques to sell new services directly to residents in their own living rooms. Soon, transactional programming specifically designed for the multihousing market will also be available, as will access to interactive educational programming, the worldwide web, and the much-heralded information superhighway.

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The benefits to property owners ready to accept the challenge of technology are many. The new market-specific service providers typically offer significant revenue opportunities to property owners via a gross percentage of monthly subscription fees generated by residents. Revenue benefits are twofold: increased monthly cash flow and increased property value.

Besides providing hardware and service free of charge to apartment properties, many of the new breed of private service delivery companies have the flexibility to customize their products to suit the needs of individual properties and the demographic profile of their residents.

These new companies can offer more telecommunications and entertainment options than local cable and telephone companies, which typically, limit access and services according to regional demands and technological capacity.

Furthermore, regional telephone companies and large cable operators are subject to broad regulatory and legislative limitations and, therefore, move slowly to take advantage of new technologies.

Besides offering a revenue-generating, investment-free link to the future of the electronic information and services universe, these new amenities also translate in to useful marketing tools.

On the consumer side, the integrated cable and telecommunication services provider has the ability to cross-market its products and services to the apartment resident. When a property offers two or more services, residents benefit from increased subscription revenues through incentives such as free pay-per-view, or coupons for phone service, or a month's free voice mail service for selecting HBO.

On the property owner side, national service providers are offering marketing support and productivity enhancement tools. Marketing services and range from on-site marketing staff and support from a national service network to training programs for property management staff, without creating more overhead costs. The best of these programs are designed to provide value -adding leasing tools to fill vacancies and maintain occupancy.

Along with these premiums for subscription sign-up, resident benefits are significant. With convenience, choice, and lower rates as the

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initial selling points, residents are also offered a vast array of special services such as paging, home security through electronic monitoring, and the opportunity of future technologies, all with a single provider. For the resident, these features mean time-saving, hassle-free access, and service today and tomorrow.

A New communications Link

Finally, the new technology provides a communications link between the property owner or manager and the resident. This link is an opportunity for service and interaction on a new level. Residents will have greater access to management representatives and those management representatives will be able to respond more quickly to the requests of residents. Management can inform residents of news and information quickly and efficiently and cost -effectively, thereby creating a better environment for all. Some companies are now offering a dedicated cable channel for this purpose.

The future is, without doubt, complex. But with any new challenge comes opportunity. The question about new technology is how soon "smart buildings" will become the standard in the marketplace. Until then, the question is: Will property owners capitalize on the benefits by becoming technology gatekeepers, or will they allow residents to acquire new services independently, cutting themselves out of the revenue picture?

No matter what the future holds, the constants in the industry will remain quality, service, and value. The gateway to the future lies in applying these constants to the technology revolution.

---- INDEX REFERENCES ----

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Smart apartments. (apartment buildings using integrated technologies)
Ronald Litke

We've come a long way from Univac I. Complex calculations that used to require a room-sized computer can now be done on one held in your hand. Nanosecond computing solves complex mathematical problems with more speed than even a Nobel scientist.

For more than a decade, business and industry have been applying this evolving technology to increase the speed and sophistication of their operations - from robotics to miniaturized equipment controls; from worldwide stock trading to video teleconferencing. Thanks to technology, businesses are working faster and smarter.

Now, these game technologies are offering new options for home use. The concept of the smart apartment, buildings that offer integrated technologies for communication, energy management, and entertainment, is "unquestionably the wave of the future," says Joseph Coates, president of Coates and Jarratt, a Washington, D.C.-based research firm that studies the future for various industries and recently took up the field of multifamily housing.

"In fact," Coates continues, "buildings will have to become smart - meaning technologically complete... ."

Coates' research is based on wide consideration of factors that influence the industry, but he also points to a number of practical factors that lead to his conclusion. "The move toward two-income families means that most households do not have someone at home during the day. At the other extreme, non-traditional work situations mean residents are working at home, while still others have a majority of

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their entertainment experiences at home. The smart apartment building balances all these considerations and uses the technology to satisfy individual needs."

Similar attempts to combine communications and other technologies were initiated in commercial office buildings in the mid-1980s, when building-wide microprocessors were introduced with the promises of cost savings on maintenance and of profits from value-added amenities. Heating systems could be (and now are) controlled from different cities; satellite dishes would provide visual long-distance meetings to avoid costly travel (still not pervasive); computer-controlled access and identification cards would mean security would improve (generally accepted); and computer networking would link affiliated offices and share information that could be used by everyone (the technology is still ahead of the applications).

This promise of interactive, on-demand services and improved operating efficiencies has now come to the residential market tailored to fit its very specific needs. Whether it is videos on demand through the television, on-line communications with financial institutions, or energy-efficient lighting controls, the demand for personal applications of technology are increasing at a pace owners and managers can no longer ignore. However, the hardware and software that drive these ambitious plans are only beginning to reach affordability for most properties.

Other problems besides cost also make applying smart technology to apartments difficult. The range of technological applications is so vast, the vendors so numerous, and the innovations so rapid that navigating the options available seems an arduous task, let alone managing and maintaining such systems and tailoring them to the demographics of a particular building population.

In the front of the line

Some companies have already made tremendous investments in the market, seeing a potential customer base and a possible profit source. "We're taking two ubiquitous utilities - telephones and television - and making them into amenities," says Todd Greene, vice president of marketing for Los Angeles base ICS Communications, one of the firms working with developers and managers to sell technology as part of the apartment living package.

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"We get involved in the process early, developing an interactive kiosk for the marketing program and then wiring individual units. We also develop the content of the information into and out from the apartment."

ICS installs and maintains telephone, cable television, and security systems within a building. Because satellite technology permits vendors to bypass conventional telephone and cable systems, a wider spectrum of programming can be made available. ICS also is in the process of producing its own programming on apartment living as optional channel for its systems. The company wires each apartment, new or retrofit, with at least six telephone lines because of the seemingly inevitable linkage of all information streams into lines.

"Right now, the applications are simple," says Greene, "like ordering movie tickets, paying getting stock quotes, and playing on the Internet."

However, at the recent hardware convention (COMDEX) in Las Vegas, major companies were staking out positions for the primary equipment that will take interactive technology to new levels. Some, like Greene, believe the computer will be attached to a large monitor to drive an entire home entertainment, education, and business system. They predict that software will be developed to regiment these activities so that all family members can use the equipment equally, each for his or her own purpose.

Considering the cost

In order to make current interactive systems affordable to developers and managers, vendors nearly always bear the costs of installation and equipment. The sophistication of the equipment creates flexibility that allows the vendor to circumvent local telephone or cable operators as needed to provide services, as in the case of new channels being added to a cable system. Everything inside the building is controlled by the vendor through a partnership with management.

The maturity of the industry is a key concern. GE Capital-ResCom is a second-generation vendor resulting from a substantial cash infusion from General Electric, which bought telephone provider Dial Oakwood in 1991. The parent company saw the advantage of combining its various communications technologies (television, cable, and satellite receivers

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and transmitters) into a "bundled" package with telephone services. The merger was undertaken with an eye toward the expansion of interactive services as the technology improves, says Cliff Lavin, vice president and director of marketing for the company.

The promise of satisfied tenants and new sources of income is rosy, but it is difficult to find examples of buildings where profits have actually realized. Industry shakeouts among vendors have been added to the problems of getting smart apartments off the ground.

Is being smart bright?

Charlotte-based Summit Management, AMO[R], which manages its own portfolio of 21,000 mostly upscale garden apartments in the Midwest, Southeast, and Mid-Atlantic regions, began its entry into high-tech six years ago when a telephone vendor offered a PBX system and all wiring and installation into some of its buildings.

"The industry was immature at the time," says John Gray, CPM[R], president of the company, "and penetration in the buildings averaged only 25 percent, so it was unprofitable for the operator and not too good for us."

The contract for private phone service was subsequently sold to a larger vendor, which is now marketing both telephone and television services aggressively. "It's a much more professional operation now," Gray says, "and we believe it will be profitable soon. The advantage to trying again is that our installation and wiring is already complete so our construction costs are less. In addition, our residents can sign up for service and get a phone and cable hook-up the day they move in instead of waiting all day for service people. We have to make a simple connecticut takes five seconds, and the vendor takes care of everything else."

The primary marketing skews for such services is the ages 25-40 and 60 and over demographic profiles, which fit well within Summit's range. "As is often the case with innovation, mostly the upscale developers and management companies dive in first," says Coates. "But the applications will be widespread as prices for the technology become affordable or as systems demonstrate profit."

Summit gets its share of the profits through a simple formula of

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percentage of penetration multiplied by the volume of monthly billings to residents. "It could mean very significant profits for us, especially in upscale markets like ours where there is heavy telephone and cable television usage," says Gray. "And we believe this second generation of vendors is more sophisticated and better able to market the service." At the same time, Gray acknowledges that because the technology is still new, there is little track record to judge.

"What we are selling is a lifestyle," says ResCom's Lavin, "and we believe this lifestyle is attractive enough to bring in higher rents as demand for these services increases - and it will."

Gray predicts that the next areas for the application of technology is overall building security and access to the Information Superhighway. "We can't predict the future," he says, "but we think we're well positioned as managers to take advantage of the further developments in software and hardware."

Summit and other companies, such as Trammel Crow, which has begun installation of private telephone and cable systems in some of its apartment properties in Phoenix, see the path to an entire interactive system tenants can use for banking, paying bills (including rent), filing taxes, and a myriad other commercial transactions from home.

Both sides of the fence agree there are still land mines. "There isn't yet a firm standard for the partnerships," says Lavin. "Every building has a different contract: some are based on percentage, others on penetration or other considerations. The technology is moving quickly and applications are different in different markets. Considering retrofit and other special installations, it will probably be some time before a standard emerges." Until it does, the field looks wide open as technology attempts to reach into every area of residential housing.

Spend in an instant

If telephones and televisions are the most commonly talked about "smart" systems, they are not the only areas in which newer technologies can make apartment living easier.

The concept of taking available amenities and expanding them into "smart" functions in apartments is also the motivating factor for